

Sep 2019

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# CODE OF CONDUCT

for the Microfinance  
Industry

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# INTRODUCTION

# I. Preamble



This Code of Conduct (CoC) aims at promoting and advancing 'responsible lending' practices in the microfinance.

Ensuring that customer's interests are prioritized and protected, and micro-credit improves the customer's well-being, is at the heart of 'responsible lending'. In the context of micro-credit customers, much of academic work, business practices and regulatory directions, globally and in India, broadly converge to the core principles of fair treatment, suitability, transparency, privacy and grievance redressal.

Building on this knowledge, industry's own experience of CoC over the years and the evolving landscape of micro-credit in the country, this CoC continues to focus on 'responsible lending' practices towards the customer. Given that customers of micro-credit may not always fully understand the product and its impact, it is imperative that Providers take greater responsibility to ensure that customers' interests are protected.

Responsible lending behaviour and practices are greatly influenced by each Provider's policy with respect to employees and corporate governance. Therefore, employee engagement and corporate governance are two key pillars to achieve customer welfare and CoC includes them in its ambit.

# II. Notes

## a. Applicability

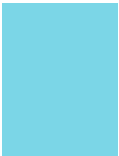
1. This CoC applies to all Providers of micro-credit, where
  - Micro-credit is defined, understood and applied as per RBI definition of 'qualifying assets' for the NBFC-MFIs<sup>1</sup> by Providers. It is clarified that all loan accounts as per the 'qualifying assets' criterion, i.e. first cycle and subsequent cycle loans, top-up loans and loans provided for purchase of third-party products, are covered by CoC.
  - Provider is defined as a legal entity, which provides micro-credit in line with RBI norms under 'qualifying assets' criterion for NBFC-MFIs.
2. For Providers who are members of the Self-regulatory Organization (SRO<sup>2</sup>), CoC is obligatory to follow and necessary condition for the membership. SROs would enforce adherence to the CoC by members.
3. For other Providers (both Banks and non-Banks) delivering micro-credit loans directly or indirectly (under partnership model or through securitization, direct assignment or co-origination) are strongly encouraged to voluntarily adopt the CoC as an industry standard.
4. As micro-credit is the key product offered by Providers to low-income market segments, focus of CoC is 'responsible lending' practices. However, the underlying principles of customer protection (fair treatment, suitability, transparency, privacy and grievance redressal) can very well be applied to other financial products offered by the Providers.
5. Providers are required to adhere to all legal and regulatory requirement as required by the RBI, SEBI, IRDA, Central & State Government Acts etc. It may be noted that CoC is in addition to these compliances and does not substitute them. In the event of future regulatory changes, if provisions of CoC and regulation are not in conformity, the regulations will prevail.

## b. Changes to previous edition and alignment with CRL

1. This CoC is a revision of the previous edition of CoC and therefore most of the elements which are central to customer welfare are kept intact. These are, however, re-drafted and re-structured for better clarity. Some of the clauses which were 'not in conformity' with the existing regulations or found to be repetitive or not contributing to responsible lending practices, have been removed. Given the importance of employee engagement and corporate governance, these two parts are more elaborately drafted and have many new additions.
2. It may be noted that the section I on Customer Engagement is largely aligned with the Code for Responsible Lending (CRL) and any additions to CRL are highlighted in blue and italics. CRL aims to bring all the Providers of micro-credit to voluntarily agree on the most-critical aspects of customer engagement.

<sup>1</sup> [https://www.rbi.org.in/Scripts/BS\\_ViewMasCirculardetails.aspx?id=9827](https://www.rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=9827)

<sup>2</sup> SRO is defined as Industry Association which is recognized by the RBI as SRO for the NBFC-MFIs as per RBI, in accordance with RBI press-release [https://rbi.org.in/Scripts/BS\\_PressReleaseDisplay.aspx?prid=30052](https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=30052)



# CODE OF CONDUCT

# Code of Conduct

## Employee Engagement

Recruitment

Orientation  
(training and appraisal)

Well-being

## Customer Engagement

Suitability (avoiding  
multiple/over-lending)

Fair Interaction

Information & Privacy

Education &  
Transparency

Others

Grievance Redressal

## Corporate Governance

Policies, Strategic  
Directions & Oversight

Risk Management &  
Internal Audit

Industry Cooperation



# I. Customer Engagement

## a. Fair Interaction

1. Provider must ensure that customer is not unfairly discriminated against on grounds such as religion, caste, marital status or sexual orientation etc.
2. Provider must ensure that all employees and persons acting on its behalf:
  - Use respectful language, maintain decorum and are respectful of social and cultural sensitives
  - Do not use coercion of any sort to make recovery of loans *and take recovery only at a central designated place. An employee can take recovery at the place of residence or work of the customer only if customer fails to appear at the central designated place on two or more successive occasions*
  - Do not intimidate or humiliate verbally or physically
  - Do not contact customers at odd hours or at inappropriate times such as bereavements, illness, social occasions such as marriages and births

## b. Suitability (avoiding multiple/over-lending)

1. Provider must assess customer's financial situation (income and expenses), credit requirement, repayment capacity and indebtedness based on information from the customer, Credit Information Report (CIR) and field level intelligence before disbursing a loan.
2. Provider must use a valid<sup>3</sup> CIR before sanctioning a loan. It is clarified that CIR must be used before disbursing all loans including top-up loans, second and subsequent cycle loans.
3. Provider must disburse the loan commensurate with the customer's ability to repay. Prior to sanctioning of loans, Provider based on micro-credit loans captured in the microfinance section of the valid CIR, must ensure that:
  - It does not become the fourth lender to a customer if a customer has active loans from three (3) different Providers. NBFC-MFIs are additionally required to ensure that not more than 2 NBFC-MFIs lend to a customer<sup>4</sup>.
  - It does not breach the total indebtedness of ₹125,000<sup>5</sup> per customer. However, the cap of total indebtedness in Assam remains at ₹1,00,000 per customer till further notice. It is reiterated that Provider must verify the total indebtedness of customer factoring all unsecured micro-credit loans (individual as well as group) captured in the microfinance section of the CIR prior to sanctioning of the loan<sup>6</sup>.
  - It does not sanction/disburse a loan to customer who has non-performing (delinquency > dpd 90 days<sup>7</sup>) accounts with loan amount outstanding > ₹1,000 with another Provider<sup>8</sup>.

<sup>3</sup> CIR is considered as 'valid' for 15 calendar days from the date of extraction of the CIR. This implies that Provider needs to disburse a loan to the customer within 15 calendar days from date of extracting her CIR.

<sup>4</sup> As per the RBI Directions for the NBFC-MFIs.

<sup>5</sup> This is as per RBI's press release on review of limits dated November 08, 2019:

<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11727&Mode=0>. SROs may advise different indebtedness caps for specific states/districts as required.

<sup>6</sup> Loan, if any availed towards meeting education and medical expenses shall be excluded while arriving at the total indebtedness of a customer.

<sup>7</sup> If applicant contests on her delinquent account status in CIR or share that her delinquent account is attributed to withdrawn/closure of operation of micro-credit Provider in her area, Provider must support her to resolve the issues by contacting with CICs, relevant Providers or the SROs, as required.

<sup>8</sup> Exception to this is available to loans affected by natural calamities which are qualified under RBI Guidelines for Relief Measures in areas affected by Natural Calamities for Banks and NBFCs

<https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=11394&Mode=0>,  
[https://www.rbi.org.in/Scripts/BS\\_CircularIndexDisplay.aspx?Id=10531](https://www.rbi.org.in/Scripts/BS_CircularIndexDisplay.aspx?Id=10531)



## c. Education & Transparency

1. Provider must provide key information to the customer and include them in the loan documents such as loan application, loan sanction letter/loan agreement and loan card. This must include:
  - Identity and address of the Provider
  - Identity and address of the customer
  - Product details (loan amount, tenure, repayment frequency, annualised interest rate on reducing balance method<sup>9</sup>, processing fee, any other charges or fees howsoever described, total amount payable, total charges recovered towards premium of credit-linked life insurance cover, coverage amount and risks covered, if applicable and other key terms and conditions)
  - Details of customer grievance redressal system
2. Providers must communicate all the terms and conditions to customers in the official regional language or language understood by them. *Provider must promptly communicate to the customers, any changes in terms and conditions.*
3. Provider must provide a receipt/written acknowledgement for every payment received from the customer.
4. Provider must take measures (such as training, assessment and periodic interactions with customers) to ensure that the customer fully understands the products, process and terms of the contract.
5. *Provider must give emphasis in educating customers on the importance of timely repayment for good credit history with the CICs, benefit, risks and necessary safeguards of digital financial transactions and grievance redressal mechanism including internal and external escalation mechanism<sup>10</sup>.*
6. *Provider must educate customers against blind trust on group and centre leader and how any default in the fictitious loan (also referred to as ghost lending/pipelining taken by group/centre leader in customer's name) can ruin her credit records and access to credit in future. This should be part of the Compulsory Group Training (CGT)/Group Recognition Test (GRT) process. Provider must ensure customer attendance in the group meetings.*
7. *Provider must disclose the reason to the customer if her loan is rejected. For this purpose, acknowledgment of loan application given to the customer should carry Provider's CGRM number and Turn Around Time (TAT), so that the customer can reach out to the Provider.*
8. *Please refer to the Annexure for details of disclosure requirements in branches and loan documents.*

## d. Information & Privacy

1. Provider must obtain copies of KYC documents from customers as per RBI norms.
2. Provider must upload accurate and comprehensive customer data with all RBI approved CICs as per the Uniform Credit Data Format on a weekly basis.
3. Provider must promptly address any dispute raised by the customer about her data with CICs. *This must be done within 7 calendar days from receipt of such dispute.*

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<sup>9</sup> NBFC-MFIs are required to follow the RBI Directions with respect to pricing including interest rate and processing fee

<sup>10</sup> External escalation mechanism must include regulatory channels available to customer to escalate including Ombudsman where applicable.

4. Provider must keep personal customer information strictly confidential. Customer information may be disclosed to a third-party subject to any of the following conditions:
  - Such information is required to be provided under the law or it is provided for a mandated business purpose (for example, to credit information companies)
  - Customer has been informed about such disclosure and prior permission has been obtained in writing
  - The party in question has been authorized by the customer with intimation to the Provider to obtain customer information
5. *Provider must take customer's consent for loan application, checking her CIR and her accepting terms and conditions of loan. For every product availed by the customer, credit as well as insurance or any other product, separate and explicit customer consent should be taken.*

## e. Grievance Redressal<sup>11</sup>

1. Providers must provide a robust customer grievance redressal system to address customer complaints in an effective and timely manner. *Provider must provide easy access to CGRM to all customers through a dedicated phone-number or a staff assisted procedure at the branch to register grievances.*
2. Providers must clearly communicate the details of customer grievance redressal in branches, loan documents and other communication materials. *Please refer to Annexure 'Disclosure to Customers'.*
3. *Providers must have least one Grievance Redressal Officer to over-see the CGRM and make his/her contact details (e-mail, phone number) accessible to customers.*
4. *Provider must assure the customer that she will be treated fairly despite the grievance being lodged.*

## f. Others<sup>12</sup>

1. *Provider must charge the customers in line with relevant RBI Directions.*
2. *Providers, offering any third-party sell (non-micro-credit product) to customer, must clearly disclose all necessary details of such product (pricing, benefits, warranties, exclusions). Provider must ensure that the customer is not forced to buy any such product as a pre-condition to access micro-credit or vice versa.*
3. *Provider, offering credit-linked life insurance to customer, must clearly disclose all necessary details including but not limited to as under:*
  - *Name of insurer*
  - *Policy number*
  - *Individuals covered*
  - *Premium paid*
  - *Coverage amount*
  - *Period/term of coverage*
  - *Events covered*
  - *Exceptions: terms related to pre-closure, loan rescheduling and loan default etc.*
  - *Process to file claims (documents required, TATs etc.)*
  - *Grievance process for insurance*
  - *Other key conditions*

<sup>11</sup> Provider may refer to RBI's FPC ([https://rbi.org.in/Scripts/BS\\_ViewMasCirculardetails.aspx?id=9823](https://rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=9823)) for NBFCs for further details on CGRM.

<sup>12</sup> All points covered under 'others' are additional points to CRL

4. *Provider, who have underlying digital (i.e. paper-less) process for sourcing (loan application), customer consent, due-diligence, contracts, disclosures, payment receipts, grievance redressal etc, must ensure that process are aligned with relevant regulatory norms and customer is made fully aware, educated and comfortable with digital modes.*
5. *Provider, if withdrawing operations from an area, must make alternate arrangement to service the existing loans of the customers. As an example, arrangement with an existing Provider in such can be worked out to receive loan repayments from customers.*
6. *Provider must establish direct contact with the customers, avoiding influential unscrupulous intermediaries amongst group or centre leaders. Provider must regularly rotate their group/centre leaders to restrain the disproportional influence of leaders in the group.*

# II. Employee Engagement

## a. Recruitment

1. Provider must not unfairly discriminate against a candidate for recruitment based on gender, religion, caste, marital status or sexual orientation etc.
2. Provider must select candidates based on merit, ethics and integrity.
3. Provider must recruit a candidate from other Provider based on satisfactory relieving letter or reference check only. Provider must seek reference check from candidate's current employer only after an offer letter is issued to the candidate. However, if request for reference check is not responded to within 15 calendar days (from date of sending the request), Provider may go ahead with the recruitment.
4. Provider must respond to request from other Provider for reference check within 15 calendar days from receipt of such communication.
5. Provider is encouraged to participate in Employee Bureau to submit their employees' data and check candidate's employment records.
6. Provider, recruiting from other Provider, must honour the notice period as mutually agreed between prospective employee and her/his current employer.
7. Provider, recruiting an employee up to the position of Area Manager<sup>13</sup> from other Provider, should preferably position such employee at least 50 km away from location of her/his last posting (i.e. location of branch where employee was last posted) for a year. The fundamental spirit behind this clause is to ensure that an employee does not encroach upon the business of Provider (where she/he was last employed) by virtue of her/him being privy to business information of the area and familiarity with the customers from last employment.

## b. Orientation (training and appraisal)

1. Provider must give comprehensive induction training to the employees on policies, processes, regulations, as well as CoC. Emphasis should be given on customer-interface aspect such as fair treatment, credit assessment, privacy of data, service quality, CGRM, relationship management and dealing with customer facing difficulty in repayment etc.
2. Provider must regularly assess employees' understanding of the above elements and conduct refresher training to address the gaps in understanding.
3. Provider must train their employees on understanding and dealing with gender issues including appropriate interaction with women colleagues and customers.
4. Provider must necessarily orient their employees on professional conduct and integrity issues including expected behaviour and not indulging in any unlawful and anti-social activities.
5. Provider must engage new employees in the branch-level business operations only after completion of the induction training<sup>14</sup>.
6. Provider must ensure that employees directly responsible for CGRM receive detailed training about the system, processes and soft skills for resolving the complaints.
7. Provider must institute a transparent incentive and appraisal structure in such a way that it does not lead to perverse sales behaviour, factors for the service quality, incentivises responsible lending, rewards compliance with the CoC and penalizes breach of the CoC. Provider must set targets for the branch-level employees based on a reasonable-objective criterion including understanding of micro-credit requirement and repayment capacity in an area.

<sup>13</sup> Area Manager is next higher-level position in the organizational hierarchy after the Branch Manager, though Providers may have different designation for this position such as Hub Manager/Divisional Manager etc.

<sup>14</sup> as detailed in II. b.1

## c. Well-being

1. Provider must ensure the well-being (for example, adequate remuneration, working hours, working conditions, leaves for personal reasons such as family commitments and emergencies) and security of employee is given due importance.
2. Provider must have well-defined protocol to be followed by employee to handle risks arising from going to difficult area and cash-handling. Provider must indemnify the employees for cases where protocol has been followed but mishap still occurred.
3. Provider must not collect shortfalls in collections from employees unless in proven cases of frauds by employees.
4. Provider must create conducive professional environment for both genders to work and grow.
5. Provider must have an appropriate mechanism to hear and redress the grievances of the employees and provide counselling.
6. Provider, for routine cases<sup>15</sup>, must complete the relieving formalities (including final settlement of pending dues, issuing no-objection certificate and relieving letter) of the employees within 30 calendar days from the last working day of the employee.
7. Provider must respond to request from prospective employer for reference check within 15 calendar days from receipt of such communication.
8. Provider must ensure that notice period is not more than 3 months for employees.

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<sup>15</sup> Routine case is where employee has orderly served the notice period, finished the tasks, completed handover, has no pending financials and disciplinary clearances required.

# III. Corporate Governance

## a. Policies, Strategic Directions & Oversight

1. Provider must align relevant policies such as Fair Practices Code (FPC), Product Development, Operational, Human Resources, CGRM, Internal Audit, Information & Technology etc to clauses stipulated in the CoC. Provider must align processes with the updated policies. Specifically,
  - a. Provider must have clearly defined guidelines for employee interaction with customers. This must include policy to deal with aberrations from the guidelines.
  - b. Provider must have a Board approved CGRM policy covering process to register, resolve and escalate the complaints, internal and external escalation mechanism<sup>16</sup>, complaints categories and TAT, review/audit of CGRM and reporting to Board and top management.
  - c. Providers must have a section in credit policy to deal with delinquencies at the customer level including rescheduling of loans for the customer who is facing difficulty in repayment of loans on account of loss of business assets, loss of earning members of the family, natural disasters or other emergencies.
  - d. Provider must have a Board approved framework to deal with crisis arising from natural disasters, mass defaults, negative media, local-level hostility etc.
  - e. Provider must have a policy to safeguard customer's data (capturing, transmitting, storing) covering the universally accepted principles of data protection as under:
    - Collection limitation
    - Purpose specification
    - Use limitation
    - Data minimisation
    - Preservation of data quality
    - Breach-notification
    - Incorporation of access controls
    - Encryption of data wherever feasible.
    - Incorporation of Data protection impact assessments to actively identify and mitigate threats to personal data and undertaken periodically.
2. Provider must get all key policies and plans (encompassing aspects of customer acquisition, expansion, targets, operations, HR, CGRM etc) reviewed and updated annually by the Board.
3. Provider must assess its product offering through multi-dimensional lens including its impact on the well-being of customers (such as increasing income, access to assets, reducing drudgery, improving skills etc).
4. Provider must develop their business plans based on both supply and demand side factors including current supply of micro-credit and need and repayment capacity of customers in an area. Data available from CICs should be used to understand the supply and repayment behaviour of a geography. Geographies which are saturated, should be avoided or approached with utmost caution.
5. Provider must conduct at-least the annual assessment of its performance (adherence and well as lapses) vis a vis CoC and discuss the report at Board and top Management level. The reports must disclose the methodology used for evaluating the performance. Provider with Gross Loan Portfolio (GLP) > ₹ 500 Cr, must undertake such assessment through an external agency. A copy of assessment report on CoC must be shared with the SROs.
6. Provider must record and analyse individual and aggregate level data for CGRM capturing nature of complaints, action taken and turn-around time. Report on grievances received, resolved and pending along with nature of complaints should be shared with the Board for review.

<sup>16</sup> External escalation mechanism must include regulatory channels available to the customer to escalate including Ombudsman where applicable.



## b. Risk Management & Internal Audit

1. Provider must have a well-laid out risk management framework to identify key risks (such as credit and operational risks due to concentration, excess supply, political, people, natural disasters) and steps to mitigate them.
2. Provider must audit the branches, customer, employees, process and system to check adherence to the elements described in CoC
3. Provider must internally probe persistent abnormally high performance with respect to assigned targets of branches and employees, as this may be an indicator of coercive sales practices.
4. Provider must undertake quarterly audits on a reasonable sample to capture instances of lending breaching the norms on total indebtedness, lender count and lending to customer having a delinquent account with another Provider. For this purpose, Provider may use data available from CICs to capture adherence with the norms of total indebtedness and Provider count per customer.
5. Provider must develop specific internal controls to identify and avoid informal unscrupulous intermediaries in the lending process and system. For example, direct connect with customers, pre-disbursement confirmation calls to customers, loan utilization checks, regular rotation of group/centre leaders, and customer verification during internal audit.

## c. Industry Cooperation

1. Provider must share data and information required by the SROs to understand industry level practices, research etc. For this purpose, Provider must identify a focal person to coordinate with the SROs.
2. Provider must cooperate amongst themselves to deal with industry-level issues.





# ANNEXURE: DISCLOSURE TO CUSTOMERS

# I. Office

Provider's office (Head/Regional/Zonal) should have following 'disclosure to customers' prominently displayed.

Sl no	Disclosure requirements	Drawn from (clause/page no)
1	Fair Practices Code (FPC) of the Provider which is aligned with RBI's FPC in vernacular language	RBI FPC, 2.B.i.a (p 9)
2	The effective rate of interest charged	RBI FPC, 2.B.i.e (p 9)
3	Declaration that Provider will be accountable for preventing inappropriate staff behaviour and timely grievance redressal	RBI FPC, 2.B.i.f (p 9)
4	Commitment to transparency and fair lending practices	RBI FPC, 2.B.i.b (p 9)
5	Grievance Redressal System set-up by the Provider	RBI FPC, 2.B.i.e (p 9)
6	The name and contact details (Telephone / Mobile nos. as also email address) of the Grievance Redressal Officer who can be approached by the public for resolution of complaints against the Provider	RBI FPC, 2.A.vi.a (p 6)
7	If the complaint / dispute is not redressed within a period of one month, the customer may appeal to the Officer-in-Charge of the Regional Office of DNBS of RBI (complete contact details), under whose jurisdiction the registered office of the Provider falls	RBI FPC, 2.A.vi.b (p 6)
8	Ombudsman Scheme for NBFCs: Purpose and contact details of the Ombudsman to whom complaints are to be made <sup>17</sup>	RBI's Ombudsman Scheme for NBFCs 2018, Chapter IV, 15, 1 (p 13)
9	Customer Grievance Redressal Mechanism (CGRM) of Provider as under:	CoC
i	Channels available to customers with Provider to register complaints	
ii	Escalation process	
iii	Expected Turnaround time at every level of escalation	
iv	SRO's CGRM number if customer needs support in resolving complaint	
10	Details of all loan products offered as under	CoC
i	Amounts	
ii	Annualised interest rate on a reducing balance basis	
iii	Processing fees	
iv	Tenure	
v	Repayment frequency	
vi	Purpose	

<sup>17</sup> This is currently applicable to NBFCs with assets size > ₹ 100 Cr or above with customer interface

## II. Branch

Provider's branch should have following 'disclosure to customers' prominently displayed.

Sl no	Disclosure requirements	Drawn from (clause/page no)
1	Fair Practices Code (FPC) of the Provider which is aligned with RBI's FPC in vernacular language	RBI FPC, 2.B.i.a (p 9)
2	The effective rate of interest charged	RBI FPC, 2.B.i.e (p 9)
3	Commitment to transparency and fair lending practices	RBI FPC, 2.B.i.b (p 9)
4	Declaration that Provider will be accountable for preventing inappropriate staff behaviour and timely grievance redressal	RBI FPC, 2.B.i.b (p 9)
5	Grievance Redressal System set-up by the Provider	RBI FPC, 2.B.i.e (p 9)
6	The name and contact details (Telephone / Mobile nos. and email address) of the Grievance Redressal Officer who can be approached by the public for resolution of complaints against the Provider	RBI FPC, 2.A.vi.a (p 6)
7	If the complaint / dispute is not redressed within a period of one month, the customer may appeal to the Officer-in-Charge of the Regional Office of DNBS of RBI (complete contact details), under whose jurisdiction the registered office of the Provider falls	RBI FPC, 2.A.vi.b (p 6)
8	Ombudsman Scheme for NBFCs: Purpose and contact details of the Ombudsman to whom complaints are to be made <sup>18</sup>	RBI's Ombudsman Scheme for NBFCs 2018, Chapter IV, 15, 1 (p 13)
9	Details of all loan products offered as under	CoC
i	Amounts	
ii	Annualised interest rate on a reducing balance basis	
iii	Processing fees	
iv	Tenure	
v	Repayment frequency	
vi	Purpose	
10	Pricing of loan involves only three components viz; interest charge, processing charge and insurance premium (which includes administrative charges in respect thereof)	CoC
11	Customer Grievance Redressal Mechanism (CGRM) of Provider as under:	
i	Channels available to customers with the Provider to register complaints	
ii	Escalation process	
iii	Expected Turnaround time at every level of escalation	
iv	CGRM number and contact details of Provider's Customer Grievance Redressal Officer	
v	SRO's CGRM number if customer needs support in resolving complaint	

<sup>18</sup> This is currently applicable to NBFCs with assets size > ₹ 100 Cr or above with customer interface

# III. Loan Application

Provider's Loan Application should have following 'disclosure to customers'

Sl no	Disclosure requirements	Drawn from (clause/page no)
1	Necessary information which affects the interest of the borrower, so that a meaningful comparison with the terms and conditions offered by other NBFCs can be made and informed decision can be taken by the borrower	RBI FPC, 2.A.i.b(p 3)
2	Documents required to be submitted with the application form	RBI FPC, 2.A.i.b(p 3)
3	Acknowledgement for receipt of all loan applications. Preferably, the time frame within which loan applications will be disposed of should also be indicated in the acknowledgement	RBI FPC, 2.A.i.b(p 3)
4	Following details of the product being offered to the customer	CoC
i	Amounts	
ii	Annualised interest rate on a reducing balance basis	
iii	Processing fees	
iv	Tenure	
v	Repayment frequency	
vi	Purpose	
vii	Other terms and conditions of the loan	
5	List of KYC documents to be submitted by customers	
6	Consent to check customer's credit data with credit information companies (CICs)	CoC
7	Written acknowledgement provided to the customers captures the CGRM number of the Provider	CoC

# IV. Loan Agreement

As per RBI FPC, Provider should provide a copy of loan agreement, preferably in vernacular, along with a copy each of all enclosures quoted in loan agreement, to customer in language understood by them, at the time of sanction/disbursement of loan, for each loan disbursed, stating all terms and conditions of the loan. Provider's Loan Agreement should have following 'disclosure to customer'

Sl no	Disclosure requirements	Drawn from (clause/page no)
1	Amount of loan sanctioned	RBI FPC, 2.A.ii(p 3)
2	Annualised rate of interest on a reducing balance basis	RBI FPC, 2.A.ii(p 3)
3	The NBFCs should give notice to the borrower in the vernacular language or a language as understood by the borrower of any change in the terms and conditions including disbursement schedule, interest rates, service charges, prepayment charges etc. NBFCs should also ensure that changes in interest rates and charges are effected only prospectively. A suitable condition in this regard should be incorporated in the loan agreement	RBI FPC, 2.A.iii.a (p 4)
4	All the terms and conditions of the loan	RBI FPC, 2.B.i (p 9)
5	Pricing of the loan involves only three components viz; the interest charge, the processing charge and the insurance premium (which includes the administrative charges in respect thereof)	RBI FPC, 2.B.ii (p 9)
6	There will be no penalty charged on delayed payment	RBI FPC, 2.B.iii (p 9)
7	No Security Deposit / Margin is being collected from the borrower	RBI FPC, 2.B.iv(p 9)
8	Borrower cannot be a member of more than one SHG / JLG	RBI FPC, 2.B.v (p 9)
9	The moratorium period between the grant of the loan and the due date of the repayment of the first instalment (as guided by the NBFC-MFIs (Reserve Bank) Directions, 2011	RBI FPC, 2.B.vi (p 10)
10	Assurance that the privacy of borrower data will be respected	RBI FPC. 2.B.vii (p 10)
11	Provider is accountable for preventing inappropriate staff behaviour and timely grievance redressal	RBI FPC, 2.B.i.f (p 9)
12	No customer data will be shared with any third party without taking customer consent unless required by regulations	CoC

# V. Loan Card

As per RBI Master Directions, Provider should provide loan card in vernacular language to the customer for every loan disbursed. **Provider's Loan Card should have following 'disclosure to customers'**

Sl no	Disclosure requirements	Drawn from (clause/page no)
1	Commitment to transparency and fair lending practices as prescribed by RBI	RBI FPC, 2.B.i.b (p 8)
2	The effective rate of interest charged	RBI FPC, 2.B.ii.c.i (p 10)
3	All the terms and conditions of the loan	RBI FPC, 2.B.ii.c.ii (p 10)
4	Information which adequately identifies the borrower	RBI FPC, 2.B.ii.c.iii (p 10)
5	Acknowledgement of all repayments including instalments received and the final discharge	RBI FPC, 2.B.ii.c.iii (p 10)
6	If the loan is classified as "Qualifying Asset"	RBI FAQ <sup>19</sup>
7	Prominently mention the grievance redressal system set up by the Provider and also the name and contact number of the nodal officer	RBI FPC, 2.B.ii.c.iv (p 10)
8	Non-credit products issued shall be with full consent of the borrowers and fee structure shall be communicated in the loan card itself	RBI FPC, 2.B.ii.c.v (p 10)
9	Grant of loan is not linked to any other product /services offered by the Provider or third-party	CoC
10	Pricing of the loan as under <ul style="list-style-type: none"> <li>• Processing fee</li> <li>• Annualised interest rate on a reducing balance basis</li> <li>• Insurance premium collected towards credit-linked life insurance</li> </ul>	CoC
11	No penalty is charged on delayed payment or pre-payment	CoC
12	SRO's CGRM number if customer needs support in resolving complaint	CoC
13	Coverage amount in credit-linked life insurance and period/tenure of coverage	CoC

<sup>19</sup> <https://m.rbi.org.in/Scripts/FAQView.aspx?Id=102>

For sign-ups and clarification etc.  
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